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### AUSTRALIA'S NONPROFIT SECTOR

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#### INTRODUCTION

Australians tend to divide the world of organisations into two types or sectors: government and business. They tend to overlook a third, distinct sector, commonly called the non-profit sector. Non-profit organisations (or 'non-profits') are the product of commitments by groups of people to provide a service for themselves or others, to represent their interests or lobby on behalf of others, or to practice a religion. They are not part of government, even though they may perform a public service; neither are they established or operated to make a profit for their owners.

Many well-known organisations are non-profit organisations, for example: Opera Australia and the Australian Football League; the ACTU and the Business Council of Australia; the Australian Jockey Club and the Surf Lifesaving Association; the Melbourne Club and the Returned Services League; the Brotherhood of St Laurence and the Salvation Army; the Australian Labor Party and Pauline Hanson's One Nation Party; the Australian Medical Association and Greenpeace; Geelong Grammar and the Workers Educational Association. Many more non-profits constitute the fabric of local communities, for example: local play groups and child care centres, sporting clubs and associations, recreation clubs and societies, churches and church groups, residents' associations, and service clubs.

Non-profit organisations are many and varied, but together they constitute a separate, distinct class of organisations, neither government nor business, with their own distinctive rules and characteristics. These are reviewed below. The rules for defining the non-profits are easy enough to state, but a little more difficult to apply in all circumstances.

Non-profit organisations are, first of all, organisations. This means that a non-profit organisation will have a set of rules or a constitution that gives it a life beyond the group that began it. Non-profits may be incorporated, a legal term meaning that the organisation has a legal identity independent of its members. Larger non-profits, which employ people, are incorporated in most instances. However, the great majority of non-profits, which are small and rely entirely on volunteer behaviour, are not incorporated.

Secondly, non-profit organisations are private organisations; that is, they are not directly subject to government control or direction. This does not mean that governments do not try to regulate and direct their behaviour. They do, especially when they provide a large component of a non-profit's operating revenue. However, governments try to regulate the behaviour of for-profit organisations as well. The key tests of whether an organisation is private or part of government are whether it is subject to ministerial direction and whether its actions are subject to the same parliamentary scrutiny as are the actions of government departments.

Thirdly, as their name indicates, they operate on a 'not-for-profit' basis. While in some respects

they are like private, for-profit companies, they differ from the latter in that they do not distribute any surplus or profit they might make to their members. This characteristic, part of the definition of a non-profit, does not mean that non-profits do not finish each financial year with a small excess of income over expenditure, or profit; most of them do. Like any private organisation, if a non-profit did not make a surplus in most years it would soon cease to exist. It does mean, however, that making the largest possible profit is not, and should not be, an objective of the organisation.

In determining which organisations are non-profits, there are two ways of interpreting the rule regarding the non-distribution of profits. The strict way is to require that any surplus remains with the organisation, to be spent providing additional services or better facilities. According to some, this interpretation excludes, from the non-profit sector, organisations such as mutual insurance societies, credit unions and trading cooperatives. Mutual insurance societies and credit unions try to benefit their members by making loans or selling insurance at lower than market prices and by paying a marginally higher interest on deposited funds. Trading cooperatives distribute some of their surplus, but in a manner quite unlike a private company, either through lower prices in the case of consumer cooperatives, or by means of a dividend in the case of producer cooperatives. However, in both cases the amount varies according to the level of use each member made of the cooperative. As well, cooperatives are governed according to the democratic principle that gives each member one vote. They are the product of attempts by people in earlier times to find strength through cooperation organised along democratic lines. When it comes to determining whether cooperatives or mutuals are part of the non-profit sector, North Americans tend to insist on the strict interpretation and exclude them. By contrast, Europeans, more mindful of their traditions of cooperation and solidarity, favour the wider perspective which they call the social economy. The European approach has some merit. The organisational rules governing mutuals and cooperatives clearly distinguish them from for-profit firms and give them a strong resemblance to many conventional non-profits.

A fourth distinguishing feature of non-profits is that they involve some degree of voluntary commitment of time. Most non-profits rely entirely on work performed without pay by their members or supporters. Others employ people to provide their services and manage them, but even these use volunteer labour to some degree, even if it is only the time committed by their unpaid governors or directors.

Non-profits generally are distinguishable from for-profit and government organisations in other ways as well. With very few exceptions, non-profit organisations are member-owned organisations. The exceptions are non-profits owned by other non-profits, such as a hospital or a school owned by a Catholic religious order. Members have rather different expectations of an organisation than do shareholders or conventional owners who expect to benefit financially from their investment. Because they are generally the product of peoples' enthusiasms or commitments, non-profits are strongly value driven. This often makes their governance lively and contested. Because they do not have as their major goal obtaining the largest possible return on funds invested, their performance is hard to evaluate.

Finally, the financing of non-profits is generally far more complicated than it is for government or for-profit organisations of similar size. Unlike for-profit firms, few non-profits derive all their operating income from the sale of goods or services. Few are entirely dependent on government funding. Those that do receive revenue from sales also rely on membership fees, and on revenue derived from special events such as conferences. Non-profits that provide services to a wider public also rely heavily on funds from third parties. These vary in source and in the form in which they are received. They include government funding, donations from individuals and companies, revenue from various fundraising events, and sponsorship, unrelated business ventures and returns on investments. The successful management of these various revenue streams can be quite a daunting task.

As already indicated, most non-profit organisations are not incorporated, and so they have no legal identity independent of their members. This is satisfactory for small local groups, but creates

many problems for organisations which own property, employ people and enter into contracts. Australian laws have created many different ways for non-profit associations to incorporate. These ways all recognise the special character of non-profits and are not available to groups of people who wish to combine to make a profit. The most common form of incorporation is the incorporated association. Each State and Territory has legislation which enables groups of people to incorporate as associations. There are about 100,000 incorporated associations active throughout Australia. Other common forms of incorporation available to non-profits include as a company limited by guarantee and as a cooperative. There are about 10,000 companies limited by guarantee and 3,500 cooperatives.

There are many paths to incorporation other than the three mentioned above. These are available to specialised non-profits such as Aboriginal associations, school parent associations, trade unions and bodies corporate established under strata title legislation. Some non-profits, such as the larger Christian denominations, or older charities such as the Benevolent Society of New South Wales or the Red Cross, are incorporated by their own legislation or by royal charter.

The Government also recognises the special status of almost all non-profit associations by exempting them from income tax. Even those few that are not exempt from income tax are exempted from paying tax on their members' subscriptions. Depending on their activity, many non-profits are exempted from paying other taxes, such as the fringe benefits tax, sales tax and rates. The Commonwealth Government's proposed introduction of a Goods and Services Tax may reduce the scope of these exemptions to some degree.

## Economic impact

Non-profit organisations play an important role in Australia's economy, society and political system. It is somewhat easier to measure their economic contribution than their social and political impact. This is because we have some generally agreed measures of economic impact, such as employment or expenditure. Even so, there is still much we do not know about Australia's non-profit organisations.

The group of nonprofits having the greatest economic impact are those that employ people. There are about 32,000 of these, almost all of them incorporated. They are also the group of nonprofits which are included in the country's economic statistics. As a result, some estimates can be made of their economic impact. As part of the first extensive study of Australia's non-profit sector, the ABS has been assisting the Centre for Australian Community Organisations and Management (CACOM) at the University of Technology, Sydney to develop estimates of the dimensions of the employing part of the non-profit sector. The estimates have been derived from a number of sources, mainly ABS industry surveys. They are presented in table S5.1 according to the strict definition of non-profit organisations favoured in the United States, omitting trading cooperatives and mutual finance organisations. More detailed data, including data on the wider social economy, are set out in The Dimensions of Australia's Nonprofit Sector, published by the Australian Nonprofit Data Project (ANDP) at the University of Technology, Sydney.

### S5.1 AUSTRALIA'S NONPROFIT ORGANISATIONS, By Field of Activity - 1995-96

	Operating expenditure(a)	Number of employees(b)
Field of activity	\$m	no.
Health	4,200	111,000

Education and research	6,600	137,000
Community services	3,700	132,000
Other human services (e.g. housing, legal services, employment services)	400	12,000
Religion	900	17,000
Arts and culture	400	5,000
Leisure (including sport, recreation and social clubs)	5,900	94,000
Interest organisations(including business, trade and professional associations,  trade unions,  political parties, lobby and advocacy organisations)	3,000	47,000
Other (including accommodation such as university colleges, school parent organisations,  emergency service organisations, charitable trusts, etc.)	1,400	16,000
<b>Total</b>	<b>26,500</b>	<b>571,000</b>

(a) Rounded to nearest \$100 million.

(b) At end June 1996. Rounded to nearest 1,000.

Source: CACOM estimates based on published and unpublished ABS data.

The two simplest measures of the non-profit sector's economic impact are the number of jobs it provides and the level of its expenditure, which gives some indication of the value of the services non-profit organisations provide. In June 1996, non-profit organisations provided employment for almost 600,000 Australians. This represented 6.5% of the labour force and almost 12% of private employees. They spent over \$26b dollars. This compares with GDP for 1995-96 of around \$490b in current prices.

It can be seen that non-profit organisations in the education and research field are the largest part of the non-profit sector, both in terms of employment (137,000) and expenditure (\$6.6b). This is because it includes private schools which employed 77,000 and spent \$4.8b. Almost 30% of school pupils attend non-profit schools, the majority of them Catholic schools.

Non-profit organisations in the community services field are another important part of the non-profit sector, which is the largest provider of community services. Nonprofits in the community services field include organisations that in Australia are commonly called charities, such as the Smith Family, Mission Australia, the St Vincent de Paul Society, World Vision and the Red Cross,

but also many aged care providers, organisations providing services for people with disabilities, many child care providers and hundreds of small community organisations providing counselling and cash assistance to families in crisis, refuges to women escaping domestic violence and homeless people. Community services nonprofits employ over 132,000 people. Many of these are employed part-time, and on low wages. For this reason, expenditure by community services nonprofits, a significant \$3.7b, is nonetheless a lot smaller than would be suggested by comparing its employment with that of the education nonprofits.

The effect of the high level of part-time employment in community services nonprofits can also be seen when compared to non-profit organisations in the health field. At 111,000, employment by these nonprofits is 21,000 less than that in community services nonprofits, while their expenditure is half a billion dollars larger. The great bulk of non-profit employment in the health industry is provided by non-profit nursing homes and non-profit hospitals. Nonprofits provide a significant minority of both nursing home and hospital beds. Another important set of non-profit organisations in the health field are those set up in response to various types of illnesses, or chronic conditions such as heart disease, HIV/AIDS, cancer, sudden infant death syndrome, and so on. These are sometimes set up by people suffering from the condition or their carers, or by doctors or medical researchers seeking better ways to treat or to cure the condition.

Non-profit organisations providing health, education, community and other human services are often referred to as public-serving nonprofits. This is because they are mostly established to provide services for people who are not their members (self-help organisations, such as Alcoholics Anonymous, are the exception to this generalisation). Public-serving nonprofits are contrasted with member-serving organisations, established primarily to serve the interests of their members. The latter are also an important part of the non-profit sector. They include religious organisations such as churches. Religious organisations serve their members' need for worship and instruction, though in doing so they provide a strong impetus to people to become involved in public-serving nonprofits. Religious organisations employed 17,000 people and spent a little under \$900m in 1995-96.

Of greater importance than religious organisations for a larger number of Australians are social or registered clubs. These employed almost 63,000 people and spent \$4.3b. They were mostly begun after the Second World War by members of other non-profit organisations such as Returned Services League Sub-branches and sporting clubs such as bowls, golf and football clubs, to provide for themselves more comfortable places for a drink and a meal than were available in most hotels or restaurants. Since then they have grown into major leisure facilities. Clubs in New South Wales led the way, helped for many years by the State Government giving them a monopoly on poker machines. In table S5.1 these are grouped with sporting associations and recreation clubs in the leisure field of activity.

Non-profit organisations are very important in sport and recreation activities. Almost all sporting clubs and associations are non-profit organisations. This is unlike the situation in many comparable countries where the major sporting clubs are privately owned. Non-profit recreation associations help people to collectively indulge their enthusiasms, from bushwalking to rose growing.

In culture and the arts, non-profit organisations are a mixture of member- and public-serving. At one level, non-profit organisations enable amateur thespians and chorists to engage in their art and, occasionally, to edify others. However, most of these are purely volunteer associations, and are not included in table S5.1. The economic impact of non-profit arts organisations comes mainly from the large performing arts companies such as the Australian Ballet or the Sydney Theatre Company. In addition, there are over 150 small non-profit organisations running community radio and television stations and a few non-profit libraries and museums. Culture and recreation contains more information on this field of activity.

Interest groups are another important group of nonprofits that mainly serve the interests of their

members, but in doing so, arguably make a major contribution to the smooth operation of the economy and a major contribution to our democratic political system. This is another field of activity, like religion, where the constituent organisations are all nonprofits. In June 1996 they employed 47,000 people, and they spent a little over \$3b in 1995-96. Included in this industry are political parties and trade unions; professional associations, such as medical colleges, bar associations, institutes of architects or chartered accountants; and business, trade or industry associations such as the Australasian Soft Drink Association or the Chatswood Chamber of Commerce and their peak bodies such as the Australian Chamber of Commerce and Industry. Many other interest organisations, such as the Combined Pensioners' Association or the Federation of Parents and Citizens Associations, are formed to advance the interests of their members who might be individuals or other non-profit organisations. Many other non-profit organisations are formed to advance the interests of other people or causes. These include Amnesty, the Australian Council of Social Service, the World Wide Fund for Nature and the Australian Conservation Foundation.

Non-profit organisations provide a range of services to educational institutions, such as canteen services and uniform shops at many schools (through parent associations), food services and other facilities to universities, through university unions, and accommodation through university colleges. A few are established to publish books or periodicals, often on religious themes. Some are established to help other nonprofits by making grants or encouraging volunteering. Some of the former, such as the Myer and Potter Foundations, are endowed by funds left in a bequest; others, like various United Way organisations, raise money in order to distribute it. Many charitable trusts or foundations are too small to employ people; most are administered by trustee companies.

As noted earlier, non-profit organisations obtain their revenue from a variety of sources. Overall, the most important single source is the sale of the goods and services the organisation is established to provide. During 1995-96, revenue from this source totalled \$14b. The next most important source of revenue was government funding of \$8b. Finally, organisations raised \$5b from a variety of other sources, including gifts from the public, bequests, gifts and sponsorship from companies, and interest and rent from investments and from other commercial activity unrelated to the organisation's main purpose.

These highly aggregated data conceal considerable variation between nonprofits in different fields of activity, and between nonprofits in the same field. Some of the cause of this variation can be seen by an examination of government financial support for non-profit organisations. Overall, direct government support for nonprofits contributes only 30% of their revenue. This is because most member-serving nonprofits receive little government assistance. By and large, they are not considered to be providing a wider public benefit. Indeed, some of them play a major role in government revenue raising, through government taxes on the gambling opportunities provided by registered clubs and racing clubs. Member-serving nonprofits raise most of their revenue from sales and membership dues. However, churches are almost entirely dependent on donations from their members, while major sporting nonprofits raise large amounts through corporate sponsorship.

By contrast, non-profit organisations in what are conventionally seen as the public-serving fields of health, education, community and other human services, are far more dependent on government funding. For nonprofits in these fields, direct government support amounted to \$7.4b and comprised 49% of their revenue in 1995-96. Nonetheless, revenue from user fees is still important, totalling \$4.7b or 31% of all revenue. Revenue from user fees is particularly important to non-profit hospitals and private schools, but also to child care centres and aged care providers. Another source of revenue for these organisations is fundraising. This can take an extraordinary variety of forms, from street, mail and telephone appeals, to various special events such as fairs, fun runs, auction nights and theatre parties, to art unions and bingo nights. In 1995-96, fundraising revenue for these public-serving nonprofits totalled \$1b. Other revenue also comes

from commercial activities such as opportunity shops and investments.

## **Social and political impact**

In addition to making a significant contribution to Australia's economy, particularly its service economy, non-profit organisations play an important social and political role. This is easier to describe than it is to measure, partly because there are no simple measures for these roles, and partly because it is the very numerous but unsurveyed associations, which rely entirely on volunteers, that contribute so much to society and to the political system.

Non-profit organisations are a product of, and further encourage, people's capacity to work together to provide a service for themselves or others or to represent their interests to others, including government. They are the organisational form chosen by people who want to share their enthusiasm for some recreational pursuit. As they are the main constituents of social movements, they are the organisational form used by people who want to change society. They are the way ethnic minorities preserve and celebrate their cultural heritage. Belonging to particular non-profit organisations enables people to affirm their values and express their identity.

Non-profit organisations are an important component of what is coming to be called 'social capital', or the norms of trust and reciprocity, and the networks of groups and organisations that are their product but also reproduce them. The American political scientist, Robert Putnam, has claimed that a rich 'civic culture' is a prerequisite for a strong democratic political system and for continuing economic prosperity (Putnam, 1993). Other United States research has shown that people who belong to non-profit associations are far more likely to participate in the political process than are people who resemble them in other ways, but not in their membership of associations (e.g. Verba et al, 1995).

There is a concern in the United States and other parts of the Western world that formation and membership of voluntary associations are declining, with unfortunate long term consequences. There are few Australian data on this issue, though it is clear that the membership of many associations is declining. In addition, in those States for which data are available, it is clear that the number of Australians who volunteer has declined over the last 15 years (Lyons and Fabiansson, 1998). In 1994-95, less than one in five Australians aged 15 or more did any voluntary work at all. Almost 60% of all volunteer hours were contributed by only 2.5% of the population, who volunteered on average for more than 300 hours over the year.

## **Conclusion**

The first non-profit organisations were formed in Australia between 1810 and 1819 during Macquarie's governorship. Australia proved a fertile ground for non-profit organisations, though the impetus for their growth was stronger at some times than others. Australia has a large non-profit sector, approximately equivalent to that in the United States, after adjusting for population size. However, there are now signs that the number of non-profit associations and people's involvement in them might be shrinking. Those where membership is markedly declining include churches, political parties, trade unions, service clubs, scouts and guides. Membership in many local sporting associations seems to be declining, and smaller registered clubs are feeling the pressure of new commercial opportunities for gambling and socialising. With the exception of credit unions, most of those organisations in the finance industry that began as mutuals have been taken over by, or been converted to, for-profit firms.

The non-profit sector is an important part of Australia's economy, society and political system. It is inevitable that pressures for change operating within those wider formations will impact upon non-profit organisations; indeed some of these pressures spring directly from nonprofits. It is clear that the non-profit sector is growing world-wide (Salamon, 1994). However, it is possible that the directions in which Australia is changing may, on balance, weaken the sector, with all of the regrettable consequences that, according to some research, will follow. However, it is just as

possible that, as a further reaction to the pressures of globalisation, new local and national initiatives and movements will emerge, readjusting once again the profile of Australia's non-profit sector, while maintaining its central role as a demonstration of people's continuing ability to work together without the direction of government or the spur of profit.

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